

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS
AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL
OFFICERS ACT OF 1990 AND THE GOVERNMENT
MANAGEMENT REFORM ACT OF 1994

FROM: JAMES L. TAYLOR
Chief Financial Officer

SUBJECT: Estimated Actuarial Liability for Future Workers' Compensation
Benefits

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of September 30, 2011. For comparative purposes, FY 2010 amounts are also presented. The Department of Labor's Office of Inspector General expects to issue the results of its audit of overall FWC liability by October 2011.

Per Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statements, if such amounts are material.

The amounts presented in the attachment were developed by DOL's Office of Workers' Compensation Programs (OWCP). A description of the methodology used to estimate the actuarial liability is also included in the attachment. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, and the Small Business Administration to facilitate implementation of GMRA requirements. Agencies not specifically listed are included in the "Other" category. DOL/OWCP is unable to estimate the actuarial liability for individual agencies comprising the "Other" category.

This guidance is for the purpose of financial statement presentation only and is not intended for use as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. Federal entities should comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Additional guidance on recording this actuarial liability is contained in the Federal Intragovernmental Transactions Accounting Policies Guide, available at: http://www.fms.treas.gov/factsi/manuals/apg_fy10.pdf.

Attachment

Attachment	<i>United States Department of Labor</i>	
	<i>Estimates of Total FECA Future Liabilities,</i>	
	<i>as of September 30, 2011 and 2010</i>	
	<i>(Data evaluated as of June 30, 2011)</i>	
	<i>(Thousand of Dollars)</i>	
<i>Agency</i>	<i>2011</i>	<i>2010</i>
Agency for International Development	\$22,175.0	\$26,035.0
Corp. for National and Community Service	9,092.1	9,989.9
Department of Agriculture	903,733.7	881,454.2
Department of Commerce	235,981.7	210,234.5
Department of Education	16,230.3	17,602.7
Department of Energy	94,065.2	93,316.8
Department of Health and Human Services	269,073.3	259,499.5
Department of Homeland Security	2,055,225.3	1,937,835.6
Department of Justice	1,359,361.0	1,314,109.0
Department of Labor	226,156.3	226,494.1
Department of State	73,829.0	71,997.4
Department of the Air Force	1,349,858.6	1,321,450.9
Department of the Army	1,828,971.6	1,813,931.7
Department of the Interior	747,210.7	723,131.9
Department of the Navy	2,394,056.7	2,463,087.1
Department of the Treasury	558,387.9	544,344.9
Department of Transportation	977,634.1	976,754.1
Department of Veterans' Affairs	1,890,635.0	1,862,264.5
Dept. of Housing and Urban Development	75,875.2	72,288.8
Environmental Protection Agency	44,832.6	44,938.1
Executive Office of the President	5,640.9	5,264.3
Federal Judiciary	88,267.9	80,038.9
General Services Administration	132,194.6	135,331.0
National Science Foundation	1,272.4	1,355.8
Natl. Aeronautics & Space Administration	51,078.4	55,401.5
Nuclear Regulatory Commission	7,245.3	7,574.8
Office of Peace Corps	4,787.0	4,892.1
Office of Personnel Management	21,712.8	22,043.5
Panama Canal Commission	48,694.7	54,533.7
Peace Corps Enrollees	128,334.0	133,264.8
Small Business Administration	30,629.7	29,960.0
Smithsonian Institution	62,380.3	60,144.0
Social Security Administration	334,083.0	319,295.5
Tennessee Valley Authority	475,089.6	499,357.3
United States Postal Service	12,218,673.6	10,597,448.2
US Government Printing Office	68,144.5	70,884.1
All Other Defense	794,008.4	820,707.0
Other Identified Establishments	280,768.7	257,157.7
Totals	\$29,885,391.0	\$28,025,414.9

(1) Excludes FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund and FECA benefits due to eligible workers of the Panama Canal Commission Compensation Fund.

(2) "Other Identified Establishments" includes all other agencies receiving annual FECA bills that are not specifically listed in the above table.

The estimate for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Discount Rates
3.535% in Year 1
4.025% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2011 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2011	N/A	N/A
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016	2.00%	3.73%

[and thereafter]

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2011 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2011 projection to the average pattern for the projections of the most recent three projections.